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**WEBBANK / AVANT LLC: CREDIT CARD CREDIT POLICY**

# General Purpose Statement

Avant, LLC (”Avant” or “The Company”) is an online lending platform company and credit card program manager that has developed a credit card application processing system that is capable of processing applications for credit cards from consumers in accordance with pre-determined credit criteria, and managing credit card accounts on an ongoing basis. WebBank (“Bank”) as the issuer of the credit card accounts (the “Accounts”), has engaged Avant as a service provider to process all applications for credit and manage the Accounts on behalf of and with direct oversight by the Bank (“Program”).

This Credit Policy (“Policy”) governs the credit card origination and account management processes and criteria used in the underwriting of credit card accounts throughout the life of the Accounts. Avant provides application processing and ongoing account management services for credit cards in a manner consistent with applicable laws, rules and regulations. Neither Avant nor Bank discriminates against credit applicants based on race, color, religion, national origin, sex, marital and familial status, age (provided the applicant has the capacity to enter a binding contract), disability; because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

All changes to this policy must be approved by the Bank.

# Program Description

## Target Audience

The Bank offers direct-to-consumer unsecured credit cards to the target market of this Program, which is consumers ranging from the ‘prime’ to the ’subprime’ portion of the credit spectrum. This product aims to meet the transacting & credit needs of these consumers and enable customers at the lower end of the credit spectrum an opportunity to rebuild their credit. This product also targets thin credit file customers to primarily give them access to credit and help build their credit history. Cards are not issued in the following states: Colorado, Iowa, New York, Vermont, West Virginia, and Wisconsin

## APRs, Credit Lines, and Annual Membership Fees

Primary product terms for the credit card are the annual percentage rate for purchases (“Purchase APR”), Initial Credit Line (“ICL”), and the Annual Membership Fee (“AMF”). All credit card originations will have an **initial Cost of Credit <= 36%**.

The initial Cost of Credit is defined as:

Purchase APR + (AMF / ICL granted at origination)

In addition, the **ongoing Purchase APR will be capped at 29.99% post origination**.

Customers will be offered ICLs ranging from a minimum of $300 to a maximum of $1000. The Purchase APR will be variable, indexed to the Prime Rate (“Prime”) with the APR calculated as Prime + Spread (as outlined in the cardmember agreement and account opening disclosures). The Spread will be maintained over the life of the account. Customers will be assigned the following AMF & Purchase APR combination:

* **$39 AMF, Prime + 17.74% Purchase APR**

The specific primary product terms to be offered to each customer will be disclosed in the cardmember agreement and account opening disclosures and will be appropriately outlined in the credit card application.

ICL decisions will be based on profitability & risk management considerations. The ICL assignment policy is described in more detail in the Credit Card Decisioning section (*Section 3 C*).

Since the Credit Card is a revolving credit product, customers will be periodically evaluated to assess eligibility for changes in Credit Line amount (increase or decrease). **Credit Lines in the portfolio will not be reduced below $300 or increased above $3000**. The ongoing Credit Line management criteria is described in more detail in the Credit Card Account Management Processes (*Sections 4 C & D*).

## Other Product Features

Credit Card transactions can post in real time and such intra-day transactions may result in balances exceeding the credit limit. As a courtesy, **customers may be allowed to go overlimit on the card, subject to authorization decisions** as per policy to ensure prudent risk management and other criteria as set forth in this Policy. The overlimit and authorization policies are described in more detail in this document, in the Credit Card Account Management Processes – Overlimit Authorizations section (Section 4 B). Credit Card customers will not be charged an overlimit fee for exceeding the credit limit.

While it is expected that the customers will primarily use the Credit Card for purchase transactions, **customers will be allowed to use the Account for cash advances, up to 25% of the account’s credit line**. **A fee (the greater of $5 or 3% of the cash transaction) will be charged to customers for cash advance transactions**. Cash advance fees will be charged in accordance with law, including adherence to limits on fees charged in the first year after account opening. **Balances incurred through such transactions will be charged interest at the “Cash Advance APR”, which will be the same as the Purchase APR**.

A Late Payment Fee will be charged for customers who do not make payments whose aggregate amount is at least their Total Minimum Payment Due by the statement due date. The Late Fee amount charged will be determined in compliance with any limits and restrictions imposed by Regulation Z and other applicable laws and regulations. **The Late Fee will be $25 for the first delinquency and $35 for subsequent delinquencies within a rolling 6 cycle time frame. The Late Fee will not exceed the Total Minimum Payment Due. There will not be any penalty APR for delinquent customers.**

The right is reserved to terminate accounts if customers do not use the Credit Card for an extended period, due to the trigger of fraud detection rules or processes, or if the Program is terminated (in compliance with state law notification requirements), or otherwise as permitted under the terms of the cardmember agreement.

Protections provided to MLA covered borrowers and customers eligible for SCRA will be addressed under the Account Management Procedure document and applicable policies.

Convenience checks and balance transfers will not be offered.

## Payments & Delinquency

The **minimum payment for the current period** will be:

**The greater of (a) $25 or (b) 1% of Outstanding Balance + Interest Charges Billed in the current statement cycle + Late Payment Fee Billed in the current statement cycle**

The **Total Minimum Payment Due** will be:

**Minimum payment for the current period + Any amount past due**

**If the outstanding balance is less than $25 then the Total Minimum Payment Due will be equal to the outstanding balance**. However, if the difference between the New Balance on the statement and the calculated Total Minimum Payment Due is less than $1.00, the Total Minimum Payment Due will be the New Balance on the statement.

If customers do not pay the Total Minimum Payment Due by the payment due date outlined on the statement, they will be considered delinquent. Any payments made by a delinquent customer are first attributed to past due minimum payments with the oldest due date. Making a payment in the amount of at least the minimum payment for the oldest due date stops the progression of delinquency and keeps customers at their current delinquency level. Customers will need to pay the Total Minimum Payment Due to be considered current on their payments.

In addition to internal tracking of delinquencies, **Avant will report account history and account standing to the credit bureaus at cycle time**. For external reporting purposes, **Avant will not report delinquency to the major credit bureaus until an account is 30 days or more past due**. We will report in a format consistent with the Fair Credit Reporting Act (“FCRA”).

Customers will have at least 21 days between the billing cycle date and the payment due date to ensure they have sufficient time to make their payments. The period between the billing cycle date and the payment due date will be a “grace period” when customers can avoid accruing interest on purchase transactions. At origination, all customers are eligible for the grace period; they retain eligibility by paying their statement balance in full by the payment due date each cycle. If customers pay less than that amount or if they are delinquent, they lose the grace period for purchase transactions and incur finance charges from their current statement cycle onwards. Customers regain grace period eligibility by paying their statement balance in full for 2 consecutive billing cycles. As outlined in the cardmember agreement, we will not charge interest on new purchases, or any portion of a new purchase, paid by the payment due date, if the customer would have been eligible for grace that period. **Cash advances are not eligible for the grace period and will accrue finance charges from the transaction date**.

Payments up to the Total Minimum Payment Due are applied as follows:

1. Interest charges – lowest interest rate charges are paid off first (purchase charges, cash advance charges)
2. Fees – Late fees, Cash advance fees, Annual fee
3. Balances – lowest interest bearing balances are paid off first (purchase balances, cash advances)

Payment amounts above the Total Minimum Payment Due are applied in accordance with the law – allocating the excess amount first to the balance with the highest APR and any remaining portion to the other balances in descending order based on the applicable APR (cash advances, purchase balances).

## Portfolio Monitoring

The revolving nature of the credit card product necessitates ongoing portfolio monitoring – of both internal and external performance. Internal performance factors include delinquencies, payment behavior, and balance utilization to name a few. External performance will be monitored through credit bureau data that is obtained on a periodic basis to assess factors such as total credit usage, payment behavior on other credit products, etc.

External performance data will include bureau scores that may be used to evaluate customers for account management actions. **The Adaptive Control Behavior Score (ACS)** will also be obtained and used, which employs an advanced analytical model to identify both positive and negative changes in credit conduct. This score is based on models from Fair Isaac and Company and implemented on the First Data platform. Income information will be periodically gathered from customers to have current information available to make effective decisions (Credit Line increases for example).

Data collection for portfolio monitoring purposes will be done in compliance with all applicable laws and regulations, including, where required by law, obtaining customer consent to collect such data.

# Credit Card Origination Process

## Process Overview

Customers will be provided with required disclosures on or with the application for the credit card product. Such information will be provided in compliance with all applicable laws and regulations.

Customers can apply for an Avant Credit Card through multiple channels – depending on the source, the application will be one of the following 3 types:

1. Unsolicited: Customers may come directly to the Avant website or indirectly via an Affiliate. In such cases the customer has not undergone any credit prescreening.
2. Solicited: Customers may receive a pre-screened offer of credit from Avant via direct mail or another outbound channel and may respond to the offer via Avant’s website or other inbound channels. Pre-screen offers may also be made through lead providers (e.g. Credit Karma).
3. Down-sell: The customer may have applied for an unsecured loan and been declined for the same, in which case they may be shown the application for a Credit Card as a down-sell.

All the above Credit Card application types include the steps outlined below.

* **Collection of Customer Information**:

All Credit Card applicants are required to complete an application form electronically as a web form. The application form is used to gather relevant information from the customer (e.g. customer identification, Income, etc.) and to get customer consent as appropriate (e.g. to pull credit report information). Once the customer submits the application, it proceeds to decisioning.

* **Credit Card Decisioning**:

In this step the information gathered about the customer is used to make Approve/Decline and Credit Line decisions. The applicant will be run through credit checks (including the use of credit decisioning scorecards) to make a credit decision on the customer. The applicant will also be sent through Fraud checks and will be declined if there is a high likelihood of Fraud. The credit and fraud checks are outlined in Section 3D of this document.

* **Cardmember agreement**:

If approved for a Credit Card, the customer will be notified real time via the website and will be informed that they will be sent a cardmember agreement that outlines the Terms & Conditions of the product, pending successful completion of the Verification step below.

* **Verification**:

The customer enters Verification where their identity and/or information is verified.

* **Card Issuance and Activation**:

Successful completion of the Verification step will lead to a Card being issued to the customer followed by Card activation once the customer receives the physical Card.

If the Card application is rejected at any Step in the process – whether due to Fraud or Credit concerns or due to a failure to verify information, a **Notice of Adverse Action (“NOAA”)**, as required by Section 1002.9 of Regulation B, will be issued to the applicant.

The Steps are outlined in greater detail below:

## Collection of Customer Information

In this Step, personal identification information is gathered from the applicant including name, address, e-mail address, telephone number, Social Security Number, date of birth, and monthly mortgage/rent payments. Income information is also gathered.

Additional relevant information from customers may be collected such as checking account balances, employment, savings account balances, etc.

This Step also includes the collection of credit data & additional 3rd party data (described in *Appendix 1 & Appendix 3*) for use in fraud & credit decisioning. All applicable laws and regulations will be complied with while gathering customer data – including obtaining any required customer consent to collect and use credit bureau data.

The details of this Step (i.e. how & when information is gathered, especially credit bureau information) vary based on whether the customer is known to Avant and based on the type of application.

* **Down-sell customers**

If the applicant is entirely new to Avant, then they need to fill out all the relevant information in the application

For Down-sell customers, much of their information will be available to be used for the Credit Card application. Accordingly, the Customer Information Gathering Step in such situations will be oriented to only collect incremental information from customers. The customers’ credit data may also be available for use in the instances where it is permitted to do so by law and appropriate consumer consent has been given for such use.

* **Application Types**

1. Unsolicited: Applicants will need to fill out all the information required in the application. The customer will need to consent to the collection and use of additional information from 3rd parties (credit bureau data).
2. Solicited: Pre-screened offers of credit may be periodically offered to customers based on credit bureau information & credit scoring models. Such pre-screen offers may be made via Direct Mail or via an Affiliate (e.g. Credit Karma). If an applicant responds to the pre-screened offer, then customer information on the application will be pre-filled based on the information available when the offer was sent. The applicant will then proceed through the rest of the application process, including submitting additional data for use in Underwriting or Verifications as appropriate.
3. Down-sell: If a customer applies for another WebBank product offered through Avant, then the customer may receive a Credit Card offer as a Down-sell. In such instances, some customer information will be on file, including the customer’s credit information (with the appropriate consumer consent in place). Accordingly, the Collection of Customer Information step will focus on collecting additional data specifically for use in Credit Card Underwriting or Verifications as appropriate.

Once customers have filled in and submitted the application, they proceed to the Credit Card Decisioning Step.

## Credit Card Decisioning

This Step consists of 2 sub-decisioning steps:

1. Whether to extend credit to the applicant or not (Approve/Decline decision)
2. If approved, the applicant’s Initial Credit Line

Each of these sub decisioning steps can vary based on the Application type. Each of these steps will also vary for the different populations that are targeted for the Credit Card product.

Our desired, broad target market contains customers with very different customer profiles and varying amount of data availability (specifically credit bureau data availability). The population for decisioning has been segmented as outlined in Table 1:

1. Established: This more traditional population is the largest target market for the Credit Card product. Customers in this segment have sufficient credit bureau data (including FICO scores) available for use in decisioning.
2. Emerging: This is a smaller population that is seeking to build credit history through responsible use of a Credit Card product. This segment of the population has less bureau data available for use in decisioning; accordingly, alternate data and scores will be used to decision this segment. This population includes customers without a FICO score.

|  |  |
| --- | --- |
| **Table 1: Segmentation Logic** | |
| **Variable & Evaluation** | **Segment** |
| Customer has at least 2 satisfactory and open trades in the last six months and a valid FICO score | Established |
| Everybody Else | Emerging |

**Business Rules for the Extension of Credit (Established and Emerging segment)**

If a customer fails to meet the criteria outlined in *Table 2*, the respective application will be declined. Additional criteria might apply to each segment as detailed below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 2: Credit Decision Rules for New Credit Card Customers (All segments)** | | | |
| **Source** | **Variable** | **Relation** | **Limit** |
| Credit Bureau | Number of open trade lines (excluding student loans) which have a “Last Payment Date” in the six (6) months preceding the date of the credit report and which have a 30-day or more past due current manner of payment | <= | 1 |
| Credit Bureau | Cannot be in bankruptcy | | |
| Credit Bureau | Bankruptcies on file | <= | 1 |
| Credit Bureau | Months since last bankruptcy | >= | 12 |
| Credit Bureau | Trades opened after last discharged bankruptcy if bankruptcy is reported | >= | 1 |
| Credit Bureau | Tax liens | < | 1 |
| Credit Bureau | Non-medical collections outstanding balance | <= | $5k |
| Credit Bureau | Outstanding credit card balance | <= | $30k |
| Credit Bureau | Credit Inquiries in the last six months | <= | 10 |

**Extension of Credit (Established)**

Applicants must meet the credit criteria outlined in *Table 3* to be deemed eligible for the Credit Card product. In the case of Solicited applications, customers that do not meet the bureau criteria in *Table 3* will not receive a Credit Card offer. If customers do not meet the criteria, whether Unsolicited applications or Solicited customers who respond to an offer and submit a full application, they will be declined and a NOAA will be issued.

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| --- | --- | --- | --- |
| **Table 3: Credit Decision Rules for New Credit Card Customers (Established Segment)** | | | |
| **Source** | **Variable** | **Relation** | **Limit** |
| Credit Bureau | FICO | > | 549 |
| Avant / Credit Bureau | Card model score based on Credit Bureau variables | <= | 0.16 |

In addition to Credit bureau-based hard cuts, credit models are used to decision customers. Credit models used vary across the types of applications. Given pre-screen constraints (response time, lack of information such as Income, etc.), the models used for Solicited applications may differ from those used for Unsolicited applications.

* Solicited applications need one run of the credit model(s) at the pre-screen stage to determine who will receive offers and another run of the credit model(s) at the application stage (along with incremental data gathered from customer such as Income) to make the Extension of Credit & ICL decisions.
* Unsolicited applications need only run the credit model(s) once, at application stage for the Extension of Credit & ICL decisions.

The Credit model(s) used for decisioning Solicited and Unsolicited applications are outlined in *Appendix 2.* A Credit Card-specific model has been built for Unsolicited applications. For solicited applications, a dedicated model will be introduced in a separate policy to be approved by WebBank prior to implementation.

**Initial Credit Line (Established Segment)**

The card model score & FICO will be used to assign a Credit Line as outlined in *Table 4*.

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| --- | --- | --- |
| **Table 4: Initial Credit Line Assignment for New Credit Card Customers (Established Segment)** | | |
| **Tier** | **Variable & Evaluation** | **Initial Credit Line** |
| 1 | Card model score <= 0.05 AND FICO => 630 | $1,000 |
| 2 | Card model score <= 0.07 AND FICO>=600 | $750 |
| 3 | Card model score <= 0.1 AND FICO >= 570 | $500 |
| 4 | Card model score <= 0.16 AND FICO >= 550 | $300 |

**Extension of Credit (Emerging Segment)**

Applicants need to meet the credit criteria outlined in *Table 4* to be deemed eligible for the Credit Card product. In the case of Solicited applications, customers that do not meet the bureau (Credit Bureau data source) criteria in *Table 5* will not receive a Credit Card offer. For Unsolicited applications, or for Solicited customers who respond to an offer and submit a full application, if customers do not meet the criteria, they will be declined and a NOAA will be issued.

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| --- | --- | --- | --- |
| **Table 5: Credit Decision Rules for New Credit Card Customers (Emerging Segment)** | | | |
| **Source** | **Variable** | **Relation** | **Limit** |
| Credit Bureau | Total trade lines on report | > | 0 |
| Credit Bureau | The lower valid of FICO and Vantage (3.0) | > | 549 |
| Credit Bureau | Number of open Collection items or derogatory public records | < | 1 |
| Avant / Credit Bureau | Card model score based on Credit Bureau variables | <= | 0.16 |

**Initial Credit Line (Emerging Segment)**

The ICL assignment for Emerging segment customers across all application types is outlined in *Table 6*.

|  |  |  |
| --- | --- | --- |
| **Table 6: Initial Credit Line Assignment for New Credit Card Customers (Emerging Segment)** | | |
| **Tier** | **Variable & Evaluation** | **Initial Credit Line** |
| 5 | Card model score <=0.07 and the lower of FICO and Vantage (3.0) >=630 | $500 |
| 6 | Card model score <=0.16 and the lower of FICO and Vantage (3.0)>=550 | $300 |

**Ability to Pay Requirement:**

Net income data will be collected for all credit card applicants in compliance with regulatory requirements. **A minimum net monthly income of $1,000 will be required**. This information will be utilized in conjunction with credit bureau data and reported housing expense to determine the customer’s ability to pay. If there is no mortgage payment and the rent expense is either missing or the rent expense is smaller than 10% of the stated income, a value of 10% of reported income will be imputed. A customer’s Ability to Pay will be checked before the extension of credit as per the evaluation below:

**Customer’s Debt & Housing Payment to Income ratio (DTI) post Card Issuance <= 70%**

The calculations for Customer’s Debt & Housing Payment to Income ratio post Card Issuance (DTI) are outlined in *Table 7*. If the customer fails the DTI evaluation with the lowest Credit Line offered ($300), they will be declined and a NOAA will be issued. If the proposed ICL results in the Customer’s DTI being > 70%, then they will not be eligible for that ICL amount. If a lower ICL amount will bring their DTI within the 70% threshold, then they will be considered eligible for approval with the lower ICL amount.

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| **Table 7: Ability to Pay Calculation at Originations** | |
| Monthly Net Income | The applicant’s monthly net income as reported, may be modified or adjusted during the verification process, as more fully described in the Operations Process Document |
| Open Mortgage Trades | Mortgage Trades which have a “Last Payment Date” or “Open date” when “Last Payment Date” is missing within the six (6) months preceding the date of such credit report. |
| Open Mortgage Trade Obligations | The existing monthly payment on open mortgage trades. |
| Monthly Housing Expense | (i) for applicants who self-identify as renters, their self-reported monthly housing payment plus Open Mortgage Trade Obligations (if any) or (ii) for applicants who self-identify as owners, the greater of (a) their self-reported monthly housing payment or (b) Open Mortgage Trade Obligations (if any) |
| Pre-Card Outstanding Debt | The total outstanding balance for any open trades which have a “Last Payment Date” or “Open date” when “Last Payment Date” is missing (as reported on the credit report or self-reported by the customer) within the last six (6) months preceding the date of such credit report |
| Pre-Card Issuance Monthly Debt Obligations | (i) the existing monthly payment for Pre-Card Outstanding Debt plus (ii) Monthly Housing Expense minus (iii) Open Mortgage Trade Obligations |
| Monthly Card Payment | Maximum ($25 or 4% of ICL) |
| Post-Card Issuance Debt & Housing Payment | Pre-Card Issuance Monthly Debt Obligations + Monthly Card Payment |
| Debt & Housing Payment to Income Ratio (DTI) Post Card Issuance | Post-Card Issuance Debt & Housing Payment / Monthly Net Income |

At the end of the Decisioning Step a decision on whether the applicant is approved has been made and the ICL they will be assigned has been determined (subject to fraud & verification checks). The customer will be presented with the ICL and APR / AMF combination initially shown. If a customer has not been approved, a NOAA will be presented and issued.

## Fraud & Verification

Customers approved by credit, product and affordability decisions proceed to the Fraud & Verification step to confirm their identity and/or to confirm additional information provided on the application.

Fraud checks identify and prevent common and evolving first- and third-party fraud. Fraud is mitigated through vendor partnerships with credit bureaus and alternative information providers to gain insight into applicant identity and into potential inconsistencies in the application. Different tools such as bureau identity match, knowledge based authentication (“KBA”), phone number match, and bank account verification may be used in this process. **Tools are utilized in a layered manner to ensure there are sufficient positive indications of identity and to manage costs incurred in the process**. The vendors and tools used to mitigate fraud risk are outlined in *Appendix 3*.

At the Collection of Customer Information step, applicants provide their Name, SSN, Date of Birth, and Physical Address. The first verification step is to match this customer-provided information with the information on the credit bureau report. In case of mismatches in SSN or Date of Birth, applicants are provided the opportunity to self-correct any errors. Continued mismatches are a potential indication of fraud and will require additional verification for the application to proceed.

In addition to the bureau match, fraud risk mitigation relies on the following strategies:

* Device fingerprinting – vendors identify high fraud risk characteristics such as hidden proxies, blacklisted IP addresses, and device usage across multiple applications.
* Identity mismatches – comparison of key identifying characteristics (name, phone number, SSN, device) across vendors and over time helps identify inconsistencies in an applicant’s profile that are indicative of high risk.
* Knowledge Based Authentication – applicants are asked to complete a set of challenge questions to authenticate their identity
* Phone and SMS verification – verify that the customer has possession of the phone number provided at application confirming a code received via text message or outbound call.
* Third Party ID verification – automatic authentication of identity.

Applicants need to pass enough of the different identity verification rules to be considered a low fraud risk. If the applicant’s identity cannot be established through the verification rules, the application is flagged as a high fraud risk and is declined and issued a NOAA. Once the customer passes Fraud & Verification, they will proceed to the Card Issuance & Activation Step. If not, the customer will be declined and a NOAA will be sent.

## Credit Card Issuance, Cardmember Agreement & Activation

The physical card will only be issued once the customer has received Credit approval and passed required Fraud & Verification steps. A cardmember agreement and card carrier detailing all terms of use including ICL, APR and AMF will be sent to the customer with the card. The Card, card carrier and cardmember agreement will only be sent to the verified address on file for the customer. Customers need to activate the Card before being able to use it for any transactions. Activation requires the customer to provide proof of identity (e.g. last 4 of SSN) and proof of physical possession of the Card (e.g. last 4 digits of the card number). Upon activation, the customer can use the card as outlined in the cardmember agreement.

# Credit Card Account Management Processes

This section outlines key Credit Card account management processes – specifically those that impact the extension of credit:

* **Transaction Authorizations:**

The ability to authorize individual transactions will be used to limit Fraud & Credit losses (severity of loss for delinquent customers). Such transactions will be authorized based on profitability & risk considerations.

* **Overlimit Authorizations**:

Given the low initial Credit Lines issued, customers are very likely to transact in a manner that can result in Overlimit transactions. Such transactions will be authorized based on profitability & risk considerations.

* **Credit Line Increases**:

Credit Line Increases could be initiated without a customer request (“Bank Initiated”) or Customer requested. Decisions will be based on Card usage, internal & external performance, subject to profitability & risk considerations.

* **Credit Line Decreases**:

Credit Line Decreases could be Bank initiated or Customer requested. Decisions will be based primarily on risk mitigation considerations.

Additionally, this section documents the payment hold, reissue and retention processes.

The specific criteria defining credit extension at Account management are outlined in *Tables 8 to 14*. Account management processes also cover ongoing management of several other aspects of the Card product such as APRs, Fees, Payments, Value added services, etc. The core product details including account management pricing changes are outlined in the Program Overview section above. For account management details other than those related to the extension of credit, see the Account Management procedure.

## Transaction Authorization

Usage of the ability to make authorization decisions at an individual transaction level is important for Fraud & Severity management. **Transaction authorizations may be declined if there are Fraud concerns – either customer- or transaction-level Fraud**. Transaction monitoring and detection is done in conjunction with First Data and designed to identify fraudulent activity early. A real-time fraud detection solution uses fraud scoring, rules management, and fraud detection back office investigations to help detect and prevent further fraudulent activity. First Data’s DefenseEdge solution and their Fraud Score based on the proprietary Fraud Predictor Plus Model are used to identify and manage potentially fraudulent transactions. First Data’s fraud risk analytic solution uses data from an industry consortium combining customer and merchant profiles to identify fraudulent transactions. The Fraud Score has been developed using neural network modeling techniques to evaluate transactions types and transaction history to identify fraudulent transactions. The DefenseEdge tool provides the ability to segment transactions by merchant type, location, etc. to target potential fraudsters in a more granular manner. The tool also allows strategies to be tailored for specific conditions such as Lost/Stolen notices, payment returns (potential for bust out fraud through check kiting), card not present transactions, etc. There will also be limits on certain transactions that could lead to outsize Fraud exposure (e.g. ATM limits or large purchases away from the home address).

Cash Advance balances will be limited to up to 25% of the Credit Line (“Cash Advance Limit”). Any transaction that results in the Cash Advance balance exceeding the Cash Advance Limit will be declined.

If a customer meets one or more of the criteria in *table 8* the transaction will not be authorized.

|  |
| --- |
| **Table 8: Authorization Ineligibility Checks** |
| Any account that has been closed or charged-off |
| Any account flagged for evaluation of fraudulent activity |
| Any account currently past due |
| Any account in Bankruptcy proceedings |
| Any account currently paying under modified terms |

## Overlimit Authorizations

As a courtesy, customers may be allowed to make transactions that take them Overlimit. Customers will not be charged a Fee for this service. This service will be provided in a prudent manner by limiting the amount of Overlimit credit exposure taken on through this service. The Overlimit credit exposure will be managed by making authorization decisions on every transaction that may result in the customer’s balance going above the Credit limit.

If customers meet one or more of the criteria defined in *Table 9*, they will not be authorized to make an Overlimit transaction. Note that a customer may already be Overlimit when they attempt another Overlimit transaction. The rules below apply to each transaction.

|  |
| --- |
| **Table 9: Overlimit Authorization Ineligibility Checks** |
| Any ineligibility checks in table 8 |
| Any account with an Adaptive Control Behavior Score (ACS) less than 650. |
| Any account that that has been open less than 2 cycles |
| Any account that has been restructured in the past 12 months |
| Any account that was continuously Overlimit for the past 60 days |

ACS will be collected periodically as part of the Portfolio Monitoring efforts described in Section 2 E. The most recent ACS score will be used for CLI and Overlimit evaluation.

If a customer meets any of the criteria outlined in *Table 9*, then they are ineligible for an Overlimit authorization, otherwise they are eligible for Overlimit authorization. The amount that the customer can go Overlimit will vary by their risk behavior, subject to a maximum amount. Larger Overlimit transaction amounts will be authorized for customers with lower risk.

**Authorization Decision: If the transaction amount <= Open to Buy, then approve the transaction**

The Open to Buy calculations are outlined in *Table 10 and Table 11*. Cash Advance transactions are ineligible to go Overlimit.

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| --- | --- |
| **Table 10: Open to Buy Calculation** | |
| Maximum Overlimit Balance (see Table 10 below) | Maximum balance above the Credit Limit a customer can have |
| Open to Buy | Maximum Overlimit Balance + Credit Limit – Current Balance |

|  |  |
| --- | --- |
| **Table 11: Maximum Overlimit Balance** | |
| **Behavior Score** | **Maximum Overlimit balance** |
| >=680 | 15% of the Credit Line |
| 660 – 679 | 10% of the Credit Line |
| 650 – 659 | 5% of the Credit Line |
| <650 | $0 |

**If a customer is continuously Overlimit for the past 2 statement cycles, such customer’s Card will be blocked from further usage, the customer will be placed in an internal delinquent status**, and the account will be sent to Collections to collect payment and reduce the balance. Once the customer reduces the balance below the limit, the customer is no longer considered internally delinquent due to continuous Overlimit and the respective block will be removed.

## Credit Line Increases (CLIs)

Customer credit card usage, internal & external performance will be reviewed periodically to determine whether to increase Credit Lines and increase usage of the product. Line increase decisions will be subject to profitability constraints (i.e. restricted to low risk customers who are using the Card to a sufficient extent to warrant an increase). Such decisions will be made in compliance with applicable legal and regulatory requirements, specifically ensuring the customer’s ability to pay and sending NOAAs as required under Regulation B. Line increase decisions will also be subject to operations & customer experience considerations.

CLIs can be of 2 types – Bank initiated or Customer requested. In either case if customers meet one or more of the criteria defined in *Table 12*, they will not be eligible for a Line increase.

|  |
| --- |
| **Table 12: Credit Line Increase Ineligibility Checks** |
| Any ineligibility checks in table 9 |
| Any account that has been open for less than 6 cycles |
| Any account Delinquent in the past 3 cycles |
| Any account that had a Credit Line change in the past 6 months |
| Any account with a Valid FICO score less than 600 or an Invalid FICO score. |

For ease of operations and for customer communication considerations, there is **a fixed set of Credit Line tiers in the portfolio - $300, $400, $500, $600, $750, $1000, $1250, $1500, $2000, $2500, $3000** – as outlined in *Table 13*.

**Note**:

* Income, housing expense, FICO & ACS Behavior scores will be gathered periodically as part of the Portfolio Monitoring efforts described in Section 2 E.
* There will be 11 Credit Tiers in the Portfolio as outlined in *Table 13*. Customers with the **Maximum Credit Line in the portfolio ($3000) will not be eligible for a Line Increase**.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 13: Credit Line Tiers in the Portfolio** | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| $300 | $400 | $500 | $600 | $750 | $1000 | $1250 | $1500 | $2000 | $2500 | $3000 |

If a customer does not meet any of the criteria in *Table 12*, then they are considered eligible for a CLI (subject to meeting an Ability to Pay requirement described in next section). If eligible, and if they meet certain usage criteria & display certain payment behaviors, then the customers will receive a higher Credit Line. The risk & usage criteria for increasing Credit Lines are outlined in *Table 14*.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 14: Credit Line Increase Table** | | | | | |
| **FICO** | **Behavior Score (ACS)** | **Utilization (Average of past 3 months)** | | | |
| **>=90%** | **70%-89%** | **50%-69%** | **<50%** |
| 600-659  (Max CL of $1,000) | 700+ | 1-tier increase in Credit Line (e.g. $300 to $400) | | | - |
| 680 - 699 | 1-tier increase | | - | - |
| 660 – 679 | 1-tier increase | - | - | - |
| 650 – 659 | - | - | - | - |
| 660-719  (Max CL of $2,000) | 700+ | If Current CL < $750, 2-tier increase in Credit Line (e.g. $300 to $500)  Else 1-tier increase in Credit Line (e.g. $1,000 to $1,250) | | | - |
| 680 - 699 | If Current CL < $750, 2-tier increase  Else 1-tier increase | 1-tier increase | - | - |
| 660 – 679 | 1-tier increase | - | - | - |
| 650 – 659 | - | - | - | - |
| 720+  (Max CL of $3,000) | 700+ | If Current CL < $1250, 2-tier increase in Credit Line (e.g. $600 to $1,000)  Else 1-tier increase in Credit Line (e.g. $1,500 to $2,000) | | | |
| 680 – 699 | If Current CL < $750, 2-tier increase  Else 1-tier increase | | 1-tier increase | - |
| 660 – 679 | If Current CL < $750, 2-tier increase  Else 1-tier increase | 1-tier increase | - | - |
| 650 – 659 | 1-tier increase | - | - | - |

**Ability to Pay Requirement:**

Based on the portfolio monitoring & data management processes, Income, housing payment & credit bureau data for customers will be on file.

The ability to pay for credit line increases will be assessed as follows using the definitions in *Table 15*:

First, consider whether customer income and expenses are each current. Income data is considered current if it is not more than 12 months out of date. Credit bureau data is considered current if it is not more than 4 months out of date. Housing expense is considered current until such a time that the permanent address on file is updated, at which point housing expense is considered stale and updated housing expense information will be requested from the customer.

If income, credit bureau, and housing expense data are each current, then ability to pay will be determined as:

Customer’s Debt & Housing Payment to Income ratio post CLI (DTI) <= 70%

The calculations for Customer’s Debt & Housing Payment to Income ratio post CLI (DTI) are outlined in *Table 15*.

|  |  |
| --- | --- |
| **Table 15: Ability to Pay Calculation – Current Income/ Expenses** | |
| Pre-CLI Outstanding debt | The total outstanding balance for any open trades which have a “Last Payment Date” or “Open date” when “Last Payment Date” is missing (as reported on the credit report or self-reported by the customer) within the last six (6) months preceding the date of such credit report |
| Pre-CLI Debt & Housing Payment | (i) the existing monthly payment for Pre-CLI Outstanding Debt plus (ii) Monthly Housing Expense (as defined in table 6) minus (iii) Open Mortgage Trade Obligations (as defined in table 6) |
| New CL payment | Maximum of ($25 or 4% of (Current CL + CLI)) |
| Post-CLI Debt & Housing Payment | Pre-CLI Debt & Housing Payment + New CL payment |
| Debt & Housing Payment to Income Ratio Post CLI (DTI) | Post-CLI Debt & Housing Payment / Monthly Net Income (as defined in table 6) |

If the proposed CLI results in the Customer’s DTI being > 70%, then the customer will not be eligible for that CLI amount. If a lower CLI amount will bring their DTI within the 70% threshold, then the customer will be eligible for a CLI to the largest Credit Line Tier that would bring Customer’s DTI <= 70%. If no such tier exists that is greater than the Customer’s Current CL, then the customer will not be granted a line increase.

**Proactive initiated CLI:**

**Line increase decisions will be communicated to customers and will be executed without requiring any consent from the customer.**

**Customer requested CLI:**

Customers may request a Line increase. In such situations established operational procedures for customer authentication will be followed. Post authentication, the customer will be required to provide updated income and housing expenses and a new credit report will be pulled. The customer will then be checked for Line increase eligibility.

Customers requesting a CLI that do not provide updated income and housing expense information cannot receive a CLI and will be issued a NOAA.

If the customer meets all the criteria for a line increase they will be offered the maximum line increase per *Table 14* that they qualify for. They can then choose to accept the line increase. The credit line will then be increased the next business day and the customer notified accordingly. If the customer requests a higher increase or does not meet the criteria, the request will be declined, the customer will be informed and a NOAA will be issued.

## Credit Line Decreases (CLDs)

* **Customer Requested CLDs**

**If a customer contacts Avant and requests a CLD, the request will be honored and the Credit Line will be reduced to one of the Credit Lines in the portfolio**, assuming there is a Credit Line in the portfolio below the customer’s current Credit Line. If the customer requested CLD results in an Outstanding balance greater than their desired Credit Line, the customer will need to make a payment to reduce the amount Outstanding before reducing the Credit Line.

There can be 2 types of proactive initiated line decrease programs – Targeted CLDs or Broad based CLDs. Either such program will not be in place for reasons outlined below. WebBank must approve any CLD program before introduction.

* **Targeted CLDs**

This refers to programs to reduce a customer’s Credit Line if they meet certain pre-determined criteria. Such programs are profitable if the criteria defined are accurate enough to identify customers likely to default while not impacting low risk customers who will continue to use the product. Historically this trade-off has proved to be extremely difficult to execute for our target population.

* **Broad based CLDs**

This refers to programs to reduce Credit Lines for customers across the portfolio based on some high-level criteria. Such programs are to be used in times of economic distress to reduce the potential default exposure.

## Payment Holds

The open to buy for a customer will be released a minimum of one day after receipt of payment. Additional payment holds may be applied based on individual cardmember behavior and risk characteristics. The Chief Risk officer of Avant will have the authority to approve changes to the payment hold strategy. The payment hold criteria and release days will be documented in a separate appendix to the credit policy (“Payment Hold Strategy Document”). Bank will be notified of any changes to the Payment Hold Strategy Document.

## Termination

The customer’s account may be terminated under certain conditions. Those include:

* Suspected Fraud – if upon fraud investigation a customer is found to be conducting first party fraud (e.g. check kiting or excessive dispute frequency) then the account will be closed to any further usage. Customers will be notified of this decision.
* Inactivity – if a customer does not have a balance other than the AMF and related finance charges and has no posted monetary transaction for 3 consecutive months after the assessment of the AMF, then the account will be closed with sufficient customer notification.
* Other reasons permitted under the terms of the cardmember agreement, such as closing the credit card program.

## Reissue

The reissue policy will be specified when initial performance data becomes available and submitted to Bank for approval.

## Retention

There is no proactive retention strategy offered. The reactive retention strategy is described in the account management procedure and adjustments procedure.

# Appendix 1: Third Parties Used in Underwriting

Third party data sources are used to obtain necessary information about applicant’s credit history in making a credit decision. It is ensured that all data sources used are FCRA compliant and that there is a permissible purpose to obtain each applicant’s credit report. A list of third parties used in the underwriting process is below.

**TransUnion** - TransUnion provides credit reporting information which is used in the credit decisioning process. TransUnion is used to evaluate consumer credit information, determine a consumer’s creditworthiness, and verify identity. Both positive and negative consumer payment history is reported to TransUnion.

**Yodlee** - Yodlee is a software company that allows lenders to perform bank account & income verification of its applicants. Through its financial services platform, Yodlee provides instant, efficient, and secure online consumer account verification, enabling consumer ease in applying for a credit card through Avant. Consumers using Yodlee are not required to provide copies of bank statements or paychecks to demonstrate income. Instead, Yodlee provides direct verification of the consumer’s bank account.

**First Data / FICO** – First Data is a vendor used by several Card issuers to manage Credit Card servicing. In particular, First Data offers a system – Adaptive Control – that allows issuers to flexibly decision and manage their portfolios. FICO, in partnership with First Data, offers a behavior score at account management (ACS) that is used for Authorization & Credit Line management decisions.

# Appendix 2: Models Used for Credit Card Decisioning

**Unsolicited Applications** – Avant Transunion Credit Card model version 1.0 (card model). This model is based on a representative sample of 1 million tradelines in the sub-prime non-secured credit card space with full Credit Vision data at origination of the account as well as performance data over a 2-year period. The data is part of an innovation laboratory sample provided by Transunion. The target variable is a 60 DPD within the first 12 months on book. The final model is derived from 125 variables in a tree model. All variables used are original characteristics, the model is devoid of any derived / parsed variables or third-party scores. The Underwriting factors for these models are outlined in the Model Governance Card.

**Solicited Applications** – Any model used in solicited applications will be submitted in a separate direct mail policy prior to use. There is no pre-screening for the Credit Card Product for purposes of a direct mail model at program launch.

# Appendix 3: Credit Card Fraud Strategy Tools and Vendors

Note: The following set of vendors are used for Credit Card Fraud management. Effective fraud risk mitigation requires dynamic changes to fraud defenses. Accordingly, vendors may be replaced or on-boarded as required for fraud management with WebBank approval.

|  |  |  |
| --- | --- | --- |
| **Vendor** | **Example Fraud Detection** | **Fraud Prevention** |
| Transunion | Checks for extended fraud alert (TU code 9006); TU Fraud Score is less than 200; initial fraud alert (TU code 9005); true fraud address (TU code 2001) | Known fraud |
| Threatmetrix | Device scoring | Device risk |
| iOvation | Device scoring | Device risk |
| Neustar | Neustar reports for inactive phone number or the phone number is a prepaid | Identity Validation |
| LexisNexis | Knowledge Based Authentication | Identity Validation |
| Telesign | Phone to address matching | Identity Validation |
| Jumio | Third party identity theft tool | Identity Validation |
| First Data DefenseEdge | Fraudulent purchases; indicators of account takeover | Transaction  Monitoring |
| FICO Fraud Predictor Plus | Fraudulent purchases, indicators of account takeover | Transaction Monitoring |